

**Community Development Financial Institutions Fund
U.S. Department of the Treasury**

**Community Development Financial Institutions Program
2003-2004 Technical Assistance Component**

Application Feedback

This document describes the review process that was used by the CDFI Fund under the Fiscal Year 2003-2004 Technical Assistance round. The CDFI Fund reserves the right to modify this process in future funding rounds, consistent with requirements specified in the applicable Notice of Funds Availability (NOFA) and related application materials.

Part I: Overview of the Review Process

Part II: Characteristics of a Successful Application

Part III: Minimum Prudent Standards for Financial Health

Part I. Overview of Review Process

- **Completeness** Applications were reviewed for completeness by Fund staff. Applications that were missing critical information, such as required signatures, were rejected as incomplete and not reviewed further.
- **Eligibility** Applicants were reviewed for eligibility by Fund staff. The eligibility determination considered the following factors:
 - **CDFI certification:** Applicants that were certified CDFIs or demonstrated that they could be certified as a CDFI by January 31, 2006.
 - **Prior awardees:** Prior awardees were found to be ineligible if they had outstanding late reports with the Fund as of the date of application, late payments on loans, or had significant un-drawn balances on prior awards.

After being found eligible by Fund staff, the application proceeded to the Initial Substantive Review.

- **Reviewers** Reviewers included Fund staff, staff from other Federal agencies in the community development field, and private sector community development finance professionals. The Fund carefully screened each reviewer to identify and avoid any potential conflicts of interest with Applicants. The Fund provided reviewers with focused training to prepare them for the review process and guidelines to assist them in scoring each application.

- **Review and Scoring** Each application was read by a reviewer, and scored on a scale of zero to 100. A minimum score was required for each of the four sections, as shown below:

Market Need and CDFI Strategy	10 out of 20 points
Management	10 out of 20 points
Financial Health and Resources	10 out of 20 points
Community Development Performance and Effective Use of TA	20 out of 40 points

- If the application scored fewer than 60 points and/or less than the minimum points needed in any one of the four criteria, the application received a negative funding recommendation. If the application scored over 60 points and over the required minimum in each section, the application was forwarded for follow-up review.
- **Prior Awardee Review** The Fund reviewed each Applicant's reporting history with the Fund, if applicable. Any applicant that had any required report (other than Audited Financial Statements) more than 180 days late, lost five points from the Management score. Similarly, any Applicant with a loan from the Fund, which had payments past due by more than thirty (30) days, or outstanding at the time of application lost one point for each late loan payment, up to a maximum of five points, from the Applicant's Management score.
- **Follow-up Review** Fund staff and outside reviewers conducted a follow-up review for each applicant forwarded past the initial review. The follow-up review confirmed or clarified information in the application, particularly regarding the requested use of funds. Follow up review generally included contact with the applicant, consultation with regulators (if applicable), and review of previous award files (if applicable).
- **Funding Decision** Upon completion of each review, the reviewer made a recommendation regarding whether or not to provide funding, and if so, in what amount and for what purposes. The Program Manager reviewed the recommendations and determined whether they should be adjusted due to eligibility or appropriateness. The Program Manager could also determine not to select an organization for funding if the Applicant was found to be ineligible based on the criteria stated in the Notice of Funding Availability.

Part II. Characteristics of a Successful Application

In order to receive a score of 60 points or more, and a passing score in each section, Applicants needed to demonstrate the characteristics described under each of the sections below. Applicants in operation 12 months or less could include the experience of a parent or affiliate in its application, and the activities of such parent or affiliate were evaluated. Different weights were given to certain scoring factors depending on whether or not the Applicant had been operation for 12 months or more, and whether the Applicant (or a parent or affiliate) had an existing loan or investment portfolio.

A. Market Need and CDFI Strategy

A successful Applicant demonstrated the following:

- Serving a Target Market with a high level of economic distress and need for a CDFI;
- A track record highly targeted to serving its Target Market;
- Satisfactory design of products and services to meet the described economic distress and need for a CDFI; and

- A viable market penetration strategy and reasonable level of coordination with other organizations or plans.

Applicants that had weaknesses in some of these areas may have received enough points to meet the minimum requirements if the application demonstrated a plan to address the weaknesses, through the TA request or other means.

B. Management

A successful Applicant demonstrated the following:

- Satisfactory policies, procedures and management information systems;
- Portfolio at Risk not more than 11% for lenders or portfolio valuation greater than \$0 for investors;
- Staff positions that are defined and adequate in number;
- Staff who possess appropriate technical expertise for the activities proposed;
- Clearly defined management roles;
- Management that effectively performs key functions, including staff oversight; and
- Governing Board that provides diversity of members; technical expertise in community development and in key activities; and has clearly defined roles.

Applicants that had weaknesses in some of these areas may have received enough points to meet the minimum requirements if the application demonstrated a plan to address the weaknesses, through the TA request or other means.

C. Financial Health & Resources

A successful Applicant demonstrated the following:

- Financial statements included in the application (if the Applicant has been in business for 12 months or more);
- All Minimum Prudent Standards (MPS) were met or exceeded and operating expenses are reasonable (see Part III); or
- At least one MPS was unsatisfactory, but the Applicant addressed the weakness(es); and operating expenses are reasonable;
- Applicant is not reliant on future CDFI Fund assistance;
- Applicant is not dependent on any single entity for funding;
- Applicant projects increasing its earned income from lending and other activities, as opposed to relying more on grants and contributions; and
- Applicant's financial projections appear achievable.

Applicants that had weaknesses in some of these areas may have received enough points to meet the minimum requirements if the application demonstrated a plan to address the weaknesses, through the TA request or other means.

D. Community Development Impact & Effective Use of Technical Assistance

A successful Applicant demonstrated the following:

- Satisfactory and increasing volume of activities that is realistic given the organizational capacity and market conditions;
- Projected activities that are highly targeted to its Target Market(s);
- Clearly demonstrated need for TA dollars from the Fund;
- Clearly demonstrated increase in effectiveness in serving its Target Market through the receipt of TA;
- Effective use of prior awards from the Fund, if applicable.

Additionally, if no part of the requested funds was deemed appropriate and/or eligible, then no funding was provided.

Part III. Minimum Prudent Standards for Financial Health

Non-Regulated Applicants

Ratio	Formula	MPS
Capital	Net Assets / Total Assets	$\geq 15\%$
Deployment	(Total Loans Outstanding + Total Investments Outstanding / (Total Equity Capital Available for Financing + Adjusted Notes Payable) or Total Loans Outstanding / Total Assets	$\geq 50\%$
Earnings	Nonprofits: (Total Earned Income + Total Grants and Contributions) - Total Expenses For Profits: Total Revenues - Pre-Tax Expenses	$\geq \$0$
Operating Liquidity	Total Earned Income / Pre-Tax Expenses x .25	≥ 0

Insured Credit Unions

Ratio	Formula	MPS
Capital	Net Worth / Total Assets	$\geq 5\%$
Deployment	Total Loans / Total Shares	$\geq 50\%$
Earnings	Return on Average Assets from FPR	$\geq 1\%$

Insured Depository Institutions

Ratio	Formula	MPS
Capital	Tier 1 Leverage Capital on the bank's UBPR Summary Page	Peer ranking \geq to 40 th percentile
Deployment	Total Loans/Average Assets	Peer ranking \geq 50 th percentile
Earnings	Pre-Tax Net Operating Income / Average Assets	Pre-Tax NOI / Average Assets peer ranking \geq 40 th percentile